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SONT DE PIÈTRE QUALITÉ DE REPRODUCTION

Vencap Equities Alberta Ltd.
Annual Report 1988

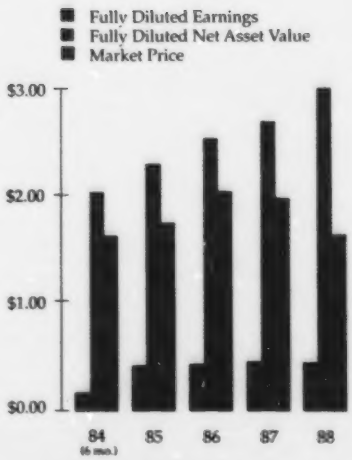
Venture capital is often compared to nature, where meaningful beginnings almost always go unnoticed. Think of the growth of a mighty tree. Growing a great company starts in a small way and, like growing a tree, takes many years. Because the process takes years, venture capital is often called patient capital.

Financial Highlights

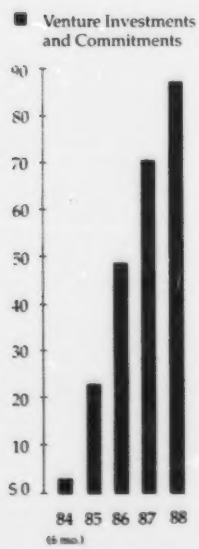
Vencap Equities Alberta Ltd.

(Millions of Dollars except per share and per cent amounts)

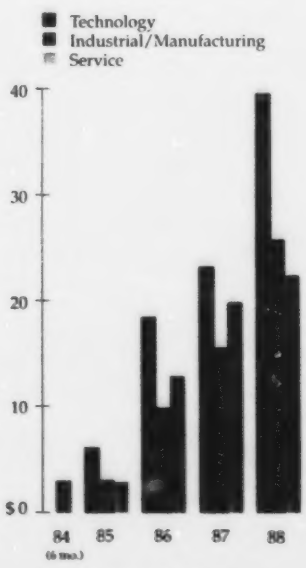
March 31	1988	1987
Revenues	22.7	24.1
Net Earnings	7.9	8.3
Earnings per share - Basic	$1.80	$1.86
- Fully Diluted	$0.44	$0.45
Total Assets	279.0	271.2
Return on Assets	2.8%	3.1%
Shareholders' Equity	30.3	21.4
Return on Equity	26.2%	38.9%



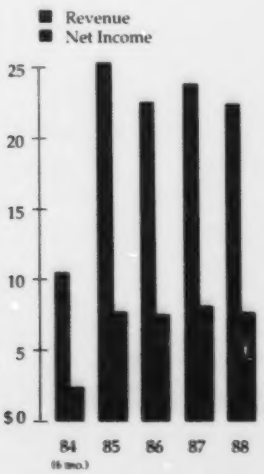
Fully Diluted Net Asset Value per Share vs Fully Diluted Earnings vs Market - as at March 31 (Dollars)



Assets under Administration - as at March 31 (Millions of Dollars)



Investments by Industry Sector - as at March 31 (Millions of Dollars)



Revenue vs Net Income -as at March 31 (Millions of Dollars)

CREDO

The creation and the building of enterprises and industries of benefit to Alberta depend on the imagination, initiative, and integrity of people far more than it depends on money.

So seek out creative individuals with a vision of things to be done. Help breathe life and vigor into new and existing enterprise with venture capital - - but with more than capital - - with sensitive appreciation for the creative drive and courage of the entrepreneur, with our own imagination, hard work and commitment to quality and excellence in Alberta enterprise, and with loyalty to the vision of Vencap's own creators.

With grateful appreciation to Georges F. Doriot (1899 - 1988) for many years a teacher and mentor to venture capitalists everywhere.

Message to Shareholders

In the four and one-half years which have passed since Vencap's creation, excellent progress has been made at establishing the foundations of a successful venture capital investment program in Alberta. At March 31, 1988, Vencap's equity investments and commitments totalled $88.1 million in 27 companies covering a broad range of industries. The combined revenues of all the businesses in which Vencap has invested exceed $1/2 billion. Their combined workforces total more than 4,000 people. Vencap is indeed having an important impact on the diversification of the economy of Alberta.

For the year ended March 31, 1988, Vencap recorded revenue of $22,661,881 compared to $24,110,808 for 1987. Net income decreased to $7,934,996 from $8,315,210 a year earlier. Earnings per share declined to $0.44 on a fully diluted basis compared to $0.45 in 1987. The decline in earnings reflects, in part, the effect of lower interest rates on the earnings from Vencap's short-term security portfolio as well as the transfer of funds from the secure investment portfolio to the lower-yielding portfolio of venture investments.

Vencap's administrative costs and salaries in fiscal 1988 were, at $3,542,981, 20 per cent higher than in fiscal 1987. Most of these increases were due to additions of staff and facilities which complete Vencap's organizational phase. Administrative and salary costs in fiscal 1989 are expected to be only modestly higher than fiscal 1988.

Subsequent to Vencap's March 31, 1988, fiscal year end, the corporation invested $18.1 million to acquire 2.5 million shares of Sherritt Gordon Limited. This is an unusual investment for Vencap but well within its terms of reference. Sherritt is an important Alberta company with approximately 1,000 people employed in the province. Vencap's role will be to assist in maximizing the growth potential inherent in Sherritt's fertilizer and metals business and technology which role, if successfully carried out, will benefit Vencap's shareholders as well as enhance the economic future of Alberta.

During the last few months of fiscal 1988, Vencap undertook to determine the information needs of shareholders in order that we can better satisfy them. A confidential questionnaire was mailed to almost 5,500 shareholders, a good many of whom responded with ideas, questions and comments. Several suggested that Vencap should publish a newsletter with information on the affiliate companies, explanations of what we do and how we are doing it and other data of interest. We have decided to follow this suggestion. Vencap's first newsletter will be introduced this fall.

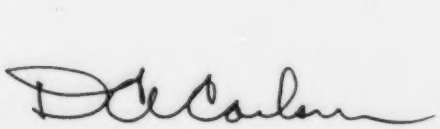
We are proud of Vencap's portfolio of affiliate companies. Their leaders are outstanding people of vision, integrity and courage. They are constantly building for the future, and their efforts, day in and day out on behalf of themselves and their shareholders, including Vencap, will be of substantial benefit to us all. They are building important Alberta companies.

Vencap continues to be served by a Board of Directors of some of the most outstanding businessmen in Alberta. Mr. J.H. Nodwell, President of Calgary-based Canadian Foremost Ltd., was elected to the Board at last year's annual meeting. Not standing for re-election at this year's annual meeting, however, are James G. Anderson and F. William Fitzpatrick. We would like to express our grateful appreciation to both gentlemen. Mr. Anderson participated in the organization of Vencap and served as a founding director of the corporation. His dedicated attention to Vencap affairs and commitment to its success will be missed. Mr. Fitzpatrick, while serving for a shorter period of time, has none the less contributed substantially to Vencap's progress. During the year, in January, 1988, Mr. E.J. McDougald resigned as a Director and joined Vencap's management. While we will all miss Mr. McDougald's counsel and advice at board meetings, the advantage of having his skill and abilities available day-to-day as a member of the management team more than offsets this loss.

Finally, we are grateful to Vencap's own people. Individually they are unusually talented. Working as a team their achievements on behalf of the corporation are outstanding.

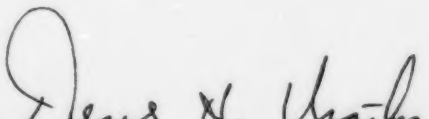
There is no better way to conclude this report than to repeat what we said last year. "The most important part of our work is people — entrepreneurs who have a vision of things to be done, directors and advisors who join with Vencap to assist young companies in realizing their visions, shareholders and friends who refer opportunities to us — Albertans working together and getting exciting things done!"

On behalf of the Board of Directors,



Donald A. Carlson

Chairman



Derek H. Mather

President and Chief Executive Officer

Corporate Profile

Vencap Equities Alberta Ltd. is a venture capital company owned by Canadians and established to serve the long-term economic interests of Alberta and Albertans. Vencap's aim is to assist in the creation of new Alberta-based companies and to participate in the growth of existing businesses which will broaden the economic base of the province.

The development and growth of successful business ventures require creative, dedicated leadership, sound business judgment and sufficient long-term equity capital. Vencap supports competent people and companies in their areas of endeavor with equity capital and the time, talent and experience of its staff. Vencap's objective is to create long-term capital appreciation through the growth and profitability of the companies in which it invests.

Investment Guidelines

Vencap Equities seeks to find entrepreneurs and enterprises with whom a constructive relationship can exist or be created and, as a result, lead to the building of significant businesses in Alberta.

Vencap is interested in all areas of legitimate endeavor, excluding conventional oil and gas exploration and development, nuclear power, water diversion projects, real estate development and conventional banking and lending operations.

Vencap considers investments of any size in businesses where there is excellent potential for future growth. All investments made involve the present and/or future acquisition of equity interests. Vencap does not seek to control or manage the companies with which it becomes associated, preferring to invest on a minority basis and assist the management of a business in achieving worthwhile goals.

Operating Practices

As a publicly owned corporation whose shares trade on The Alberta Stock Exchange, Vencap Equities has as its primary aim to operate profitably and to promote the long-term growth of the company in the best interests of all shareholders. Vencap is achieving this aim by:

- helping to start new Alberta companies having prospects of substantial growth
- supporting existing Alberta companies needing additional risk capital to finance

attractive growth plans

- assisting competent management to acquire Alberta companies whose present owners wish to sell
- investing outside Alberta in ventures which, if they succeed, will in some significant way enhance the economic future of Alberta and Albertans and which will otherwise assist in furthering Vencap's objectives.

Where possible, and in most instances involving early stage ventures, Vencap endeavors to invest and work with other investors who can also contribute to the success of an enterprise. The corporation also seeks to work with institutions of learning and research — the universities and technical schools, private and government centres of research and corporate development groups — to build worthwhile Alberta companies and identify possible investment opportunities.

Vencap is often contacted by bankers, investment brokers, lawyers and members of the accounting profession with suggestions of possible investment candidates. Anyone bringing an opportunity of merit will find a receptive audience.

Entrepreneurs as well approach Vencap directly at either of the Calgary or Edmonton offices. It is these people who conceive and create ventures and business opportunities who determine the success of an investment. For this reason, Vencap always works directly with the principals of every project that is approached or that contacts the corporation directly.

Submission of Proposals

The availability of a business plan greatly aids Vencap's process of inquiry. If the plan is received several days before a meeting with the principals, the effectiveness of that initial conference is much enhanced.

Companies destined for success have a vision of what they intend to do. Communicating this vision is an important aspect of the business plan. While Vencap's investment staff may be familiar with an industry, only the entrepreneur can make clear what distinguishes his or her business from the competitor's.

A business plan also includes a brief description of the technology, product or service, the company's strategy for manufacturing and marketing, and the financial results anticipated over the next three to five years.

Above all, Vencap is interested in the backgrounds of the team that will build the business. This is the resource in which Vencap invests.

Vencap's commitment to shareholders is that the corporation's venture investment program will be aimed at maximizing profits and minimizing losses. For this reason, Vencap does not support every venture to which it is introduced. Moreover, because of the uncertainties which surround enterprises planning for rapid growth, Vencap's investigations are always intensive and often lengthy.

Vencap carefully considers every serious investment proposal presented and provides a prompt preliminary response to all proposals submitted.

With the exception of BioTechnica International, Inc., Clarepine Industries Inc. (formerly Strathcona Resource Industries Ltd.), The Churchill Corporation, and the corporation's most recent investment, Sherritt Gordon Limited, the companies in which Vencap has invested are private companies and not publicly traded on any stock exchange. Private companies have no obligation to reveal financial results to the public. As an investor, Vencap receives this information but does not have permission to reveal it to others.

Vencap shareholders interested in knowing more about affiliate companies are invited to attend the corporation's annual meeting on June 29, 1988, where many of these affiliate companies will be in attendance with displays and product literature.

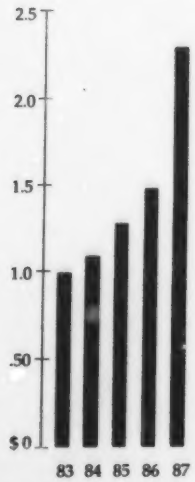
Vencap shareholders interested in receiving annual reports of BioTechnica International, Clarepine Industries, Churchill Corporation, and Sherritt Gordon can contact either of Vencap's Edmonton or Calgary offices.

Venture capital is the business of investing equity capital and time to assist entrepreneurs in building significant companies. It can take five to 10 years, perhaps longer, for a company to grow to realize its potential. For this reason, venture capital is often called patient capital. Equity capital is invested in only those opportunities with the potential to generate superior long-term capital gains and, despite being committed at great risk, is invested only after very careful consideration of these risks.

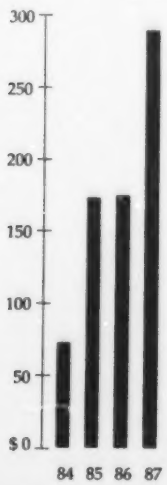
In Canada, the venture capital industry is represented by a total capital pool of $2.3 billion. Ontario accounts for 48 per cent, or $1.1 billion; Quebec contributes 31 per cent, $.7 billion, and Alberta, 14 per cent, or $.3 billion. All other provinces combine to make up the remaining seven per cent, or $.16 billion.

During the last year, $292 million of this total capital base was invested in Canada. Ontario's population makes it the leader in total venture capital disbursements, 47 per cent of the total, or $138 million. Alberta disbursements represent 15 per cent, or $44 million. On a per capita basis, however, Alberta leads the country in venture capital consumption.

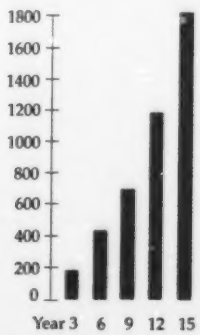
Case studies of venture capital investments show that failures emerge before winners.



Total Venture Capital under Administration in Canada
Year-end December 31,1987
(Billions of Dollars)



Venture Capital Disbursements in Canada
(1983 not available)
(Millions of Dollars)



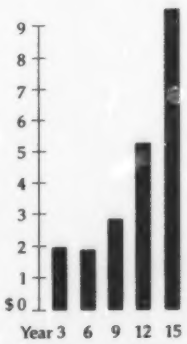
Impact of Venture Capital-Backed Companies
(based on a study of 405 companies)
Average Number of Employees per Company

To use a phrase common in the industry: "Lemons ripen quickly; pearls take time to cultivate." An illustration below, which is based on U.S. statistics, shows that winners, defined as investments where capital gains of five times the investment have been achieved, take on average about seven years to achieve this status. The majority of the losers (where the venture investment is a write-off) surface within three years.

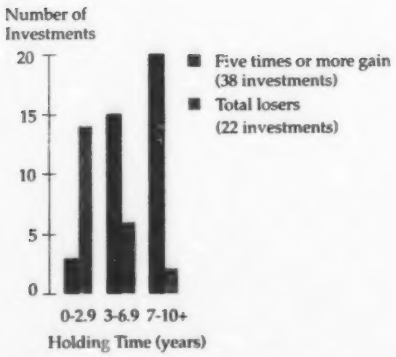
Due to the long-term nature of the venture capital process, favorable results from a venture investment are a long time in coming. But the results, when they do occur, are often magnificent. Studies of successful venture capital investments show, in addition to substantial capital gains, employment gains of 10 times over 12 years and research and development spending gains of five times in 12 years.

Vencap is the largest, single fund of venture capital in Canada. By fiscal year-end 1988, it had invested and committed $88.1 million in 27 companies, which is within the range of $20 to $25 million per year of venture investments that was targeted when Vencap was established.

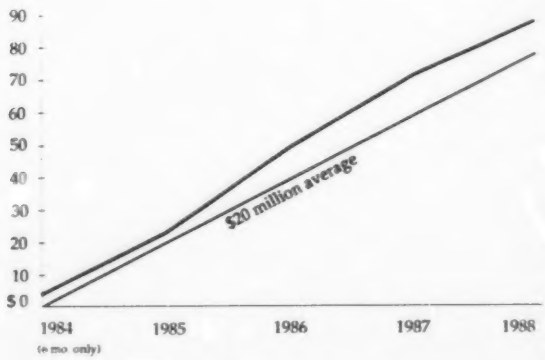
Approximately one-third of Vencap's venture investments is in companies that were not located in Alberta in any meaningful way prior to Vencap's investment.



Impact of Venture Capital-Backed Companies (based on a study of 405 companies)
Average R & D Expenditures per Company
(Millions of Dollars)



Based on 8 U.S. Venture Capital funds with total of 185 investments.



Investments Made and Committed by Vencap, each fiscal year-end - March 31
(Millions of Dollars)

Vencap Equities had directed $27 million, or 30.7 per cent of the total capital it had invested and committed by March 31, 1988, to start-up and early-stage ventures. This portfolio of emerging companies represents a cross-section of industry, from high-technology computer applications to industrial and oilwell service operations.

ALPECO

Alberta Petroleum Equipment Co. Ltd. (ALPECO) was established as a tripartite venture including Vencap, Trimac Limited of Calgary, and Mr. Dale Johnson, its president. ALPECO is an equipment management company and will concentrate on the acquisition, refurbishing, rental and sale of surplus oilfield equipment. In its capacity as a service company to the exploration industry, ALPECO is well-positioned to participate in the anticipated recovery of the petroleum industry.

The focus of ALPECO's activities initially is toward assembling an inventory of specialized equipment. Since its establishment in 1987, ALPECO has been acquiring both new and used components and, through resale and/or lease arrangements, expects to carve a market niche in the industry. The majority of equity funds invested by Vencap and Trimac is being directed toward this acquisition program.

Vencap commitment $4,275,350

BIOSYS

BIOSYS is a Palo Alto, California-based company specializing in the research, development, production and marketing of biological pesticides. The company's first product is a naturally occurring microscopic organism, the parasitic entomogenous nematode. These nematodes kill a wide variety of insects that are harmful to agriculture. They are harmless to man, animals and plants, do not cause environmental pollution and have no long-term adverse residual effects. They are so benign that, in the United States, the BIOSYS product has been granted exemption from all Environmental Protection Agency registration procedures.

Since its founding in 1983, BIOSYS has achieved remarkable scientific success in learning how to adapt the natural life cycle of the nematode to large-scale commercial production

Alberta Petroleum Equipment Co. Ltd. (ALPECO)
Dale P. Johnson, President
5304 Hubalta Road SE
Calgary, Alberta T2B 1T6
(403) 273-6551

BIOSYS
Albert J. Morris, President
1057 East Meadow Circle
Palo Alto, California 94303
(415) 856-9500

BIOSYS - developing production processes at the Alberta Research Council's fermentation facility in Edmonton.

techniques. During 1987, BIOSYS began to develop its production processes at the Alberta Research Council in Edmonton. At the same time, Vencap, in combination with five other major venture capital funds, invested in BIOSYS to assist in financing the continued development work. It is intended that BIOSYS will build its production plant, a $20 million fermentation facility, in Edmonton to supply the North American markets. The plant is expected to become operational in 1990 and will represent the beginning of a major, new Alberta industry.
Vencap commitment $1,126,253

Biotechnica Canada Inc. and BioTechnica International, Inc.

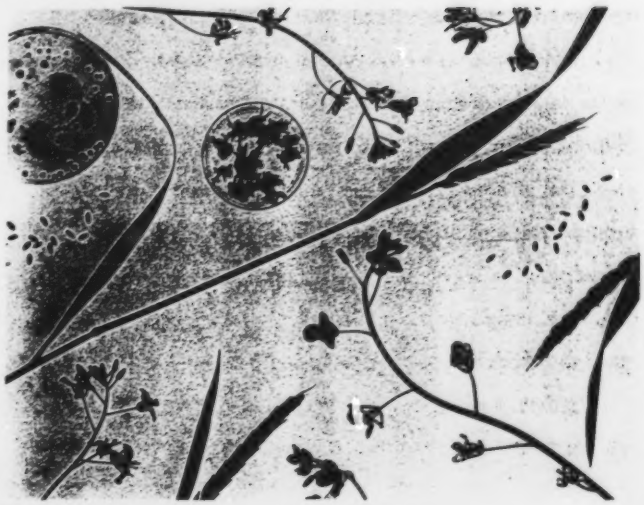
Biotechnica Canada Inc. (BTC) is an agricultural biotechnology company focused on developing and producing agronomically superior plant varieties, plant products and microbial inoculants with increased commercial value for the agriculture, agrochemical and food processing industries. BTC's initial program is to develop superior varieties of canola and other oil seed crops.

BTC was formed in August, 1985, with investments by Vencap and BioTechnica International, Inc. (BTI) and has since made very significant progress toward becoming a major and successful company. BTC has assembled a core of management, marketing and scientific talent and now employs 31 people. The company has established its own office, laboratory, greenhouse and field-test plot facilities.

In 1987, BTC generated its initial commercial product revenues with its Super-Sile™ silage inoculant and is positioned to exploit the silage inoculant market in 1988 with a broader product offering and a strengthened sales and distribution organization.

In September, 1987, BTC announced the formation of a research partnership with RJR Nabisco, Inc. (Nabisco Brands and Del Monte) and BTI to develop enhanced consumer products and crops of superior agronomic performance. RJR Nabisco is providing the major research funding and has a first option to commercialize the products resulting from the research. BTC is involved in active discussions regarding additional research and marketing collaboration agreements.

BioTechnica International, Inc. (BTI), based in Massachusetts, is a broad-based biotechnology company with commercial operations in agriculture, dental diagnostics and industrial applications of advanced bioengineering technologies. BTI is presently involved in



Biotechnica Canada - developing superior varieties of oil seed crops with increased commercial value for agricultural and food processing industries.

collaborative research agreements with Seagram, RJR Nabisco, Hoffmann-La Roche and W.R. Grace.

In January, 1988, BTI entered into a financing arrangement with State Farm Mutual that is expected to provide BTI with up to (US) $50 million over the next four years. The financing will be used to fund BTI's expanding agricultural biotechnology business, which will develop, produce and market genetically engineered alfalfa, corn, soybeans and wheat. Targeted products include seeds and seed coatings, which offer improvements such as increased protein content, disease, insect and herbicide resistance, and increased yields. BioTechnica Agriculture, a wholly owned subsidiary of BTI, acquired two seed companies during the past year, providing it with a seed- production, sales and distribution capability.

BTI's activity in dental diagnostics has also made progress with the company's initial diagnostic test for periodontal gum disease being introduced across the United States and attracting an encouraging response from the dental profession.

Vencap commitment

Biotechnica Canada Inc. $12,000,000

BioTechnica International, Inc. $4,952,867

Intercane World Corporation Ltd.

Intercane World Corporation Ltd. will manufacture and sell proprietary sugarcane separation process equipment and provide related services to sugarcane growing and milling companies around the world.

The equipment that Intercane will manufacture in Alberta is fundamentally different from that used in conventional sugarcane milling. An Intercane separation system cleanly and efficiently separates sugarcane into its major components, thereby enabling the cost-effective manufacture of structural building materials, paper, specialty sugar products, cattle feed and a variety of other products. Most of these products cannot be economically produced when conventional methods of sugarcane milling are used. Intercane's separation systems thereby increase and diversify the value derived from the production of sugarcane.

Biotechnica Canada Inc.
Gordon A. Wells, President and
Chief Executive Officer
170, 6815 - 8 Street NE
Calgary, Alberta T2E 7H7
(403) 295-0383

BioTechnica International, Inc.
John C. Hunt, Chairman
85 Bolton Street
Cambridge, Massachusetts 02140
(617) 864-0040

Intercane World Corporation Ltd.
T. William Graham, President
203, 11246 - 163 Street
Edmonton, Alberta T5M 1Y6
(403) 484-6440

When Vencap initially invested in Intercane in April, 1986, the company had just completed the manufacture of a commercial-scale prototype separation system. Extensive operating trials conducted under field conditions in Ecuador have now demonstrated the reliability and durability of the separation system. The commercial utility of Intercane's technology has been supported through studies of the technical and economic potential to produce various end products from the separated sugarcane components.

Since late 1987, Intercane has placed a heavy emphasis on sales development and is now involved in serious discussions with prospective purchasers in several countries. Sugarcane separation technology has attracted a high level of attention and interest around the world. The magnitude of the sugarcane growing and milling industry combined with the compelling economics of the separation process provides Intercane with an exciting commercial market opportunity.

Vencap commitment $3,300,000

SPURT Investment Fund I

SPURT was created in June, 1985, to provide equity seed capital and management support to Alberta entrepreneurs who are in the early stages of building a business and are not yet manufacturing, selling or shipping their products. SPURT can provide seed funding of up to $600,000 and has a focus on investing in technology product areas with high growth potential.

Vencap Seed Ventures I Ltd. is a limited partner in SPURT with nine other investors, including the Alberta Government Telephones Employees' Pension and Death Benefit Fund, Alberta Research Council, Alta-Can Telecom Inc., The Churchill Corporation, Enscor Inc., Gold Bar Developments Ltd., I.XL Industries Ltd., Petro-Canada Inc., and TransAlta Resources Investment Corporation. Alta-Can Telecom Inc., the venture capital subsidiary of Alberta Government Telephones, is the general partner.

Since its creation, SPURT has invested in three Alberta enterprises, two of which remain in its portfolio. Highwood Audio Inc. has developed an advanced audio speaker system and is currently building marketing and distribution capability. Omara Systems Inc. designs and manufactures a family of electronic industrial process controllers, which have been experiencing excellent market acceptance. SPURT's equity interest in a third investment,

Information Dynamics Corp., was sold at a profit in 1987.

Vencap commitment $269,700

Myrias Research Corporation

Myrias - developing supercomputer technology using hundreds of microprocessors connected and working together.

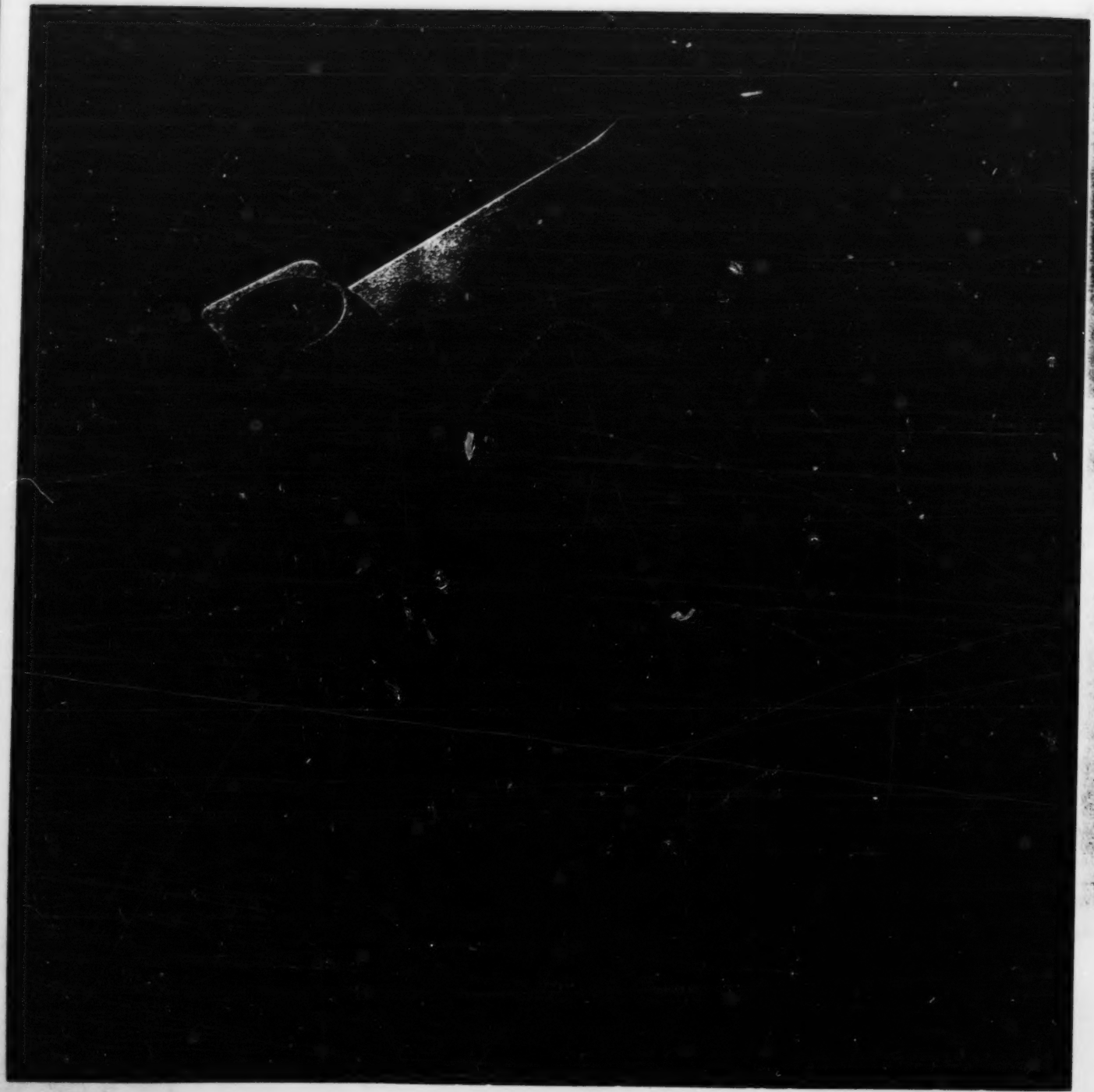
Myrias Research Corporation has developed important new and proprietary technology which has enabled this Edmonton-based company to build computer systems ranging among the most powerful in the world. Founded in 1982 with a technical development team of only four people, Myrias set out to accomplish a difficult task: harnessing the power of hundreds of microprocessors (the type found in personal computers), resulting in an extremely fast and easy-to-use computer system that would solve complex scientific problems. This concept, referred to as parallel processing, is accepted by many industry observers as the next dominant wave of supercomputer technology because of the compelling cost-effectiveness of microprocessors. The great difficulty in parallel processing, however, has been in programming and controlling the hundreds of microprocessors so that they work together efficiently. Myrias has solved the problem of controlling large parallel computers with an easy-to-use system. The company has built and is testing a 512-processor system, among the largest such machines in the world.

During the past year, Myrias has added significantly to the strength of its management team and Board of Directors in anticipation of its entry into the supercomputer marketplace in 1988.

Vencap commitment $6,000,000

SPURT Investment Fund I
Norman W. Clark, President
Floor 26H, 411 - 1 Street SE
Calgary, Alberta T2R 4Y5
(403) 231-8269

Myrias Research Corporation
Kenneth S. Gordon, President
900 Park Plaza
10611 - 98 Avenue
Edmonton, Alberta T5K 2P7
(403) 428-1616



Fully 45 per cent of Vencap's investments, $39.6 million of the total capital invested and committed at year-end 1988, can be described as technology-oriented companies. Investments have ranged from $300,000 for early-stage funding to $7 million for scale-up and production of emerging industries.

Several of Vencap's technology companies are also start-up or developing situations and are described in the previous section. They are: BIOSYS, Biotechnica Canada Inc., Intercane World Corporation, Myrias Research Corporation, and SPURT Investment Fund I. While BioTechnica International, Inc. is also a technology-oriented company, the description of its operations is contained in conjunction with Biotechnica Canada Inc. in the previous section.

ACT Computer Services Ltd.

ACT Computer Services Ltd. of Edmonton became one of Vencap's investments in technology-related industries during 1985. The company specializes in providing computer services and applications software products to business, industry and government at an international level. The investment in ACT was made together with Churchill Small Business Equity Corporation (SBEC), which invested a similar amount as Vencap on the same terms and conditions.

ACT has developed software for the transportation and heavy equipment industries in Canada, the U.S.A., Europe, South America and Australia. Additionally, the company employs one of the largest installations of IBM mainframe and minicomputers in Alberta and has created a market among commercial and financial customers for its computer-based and professional services. Information technology, one of ACT's primary focuses, features integrated, relational data bases with powerful retrieval, analytical and presentation software for processing and managing customers' information systems.

During 1987, ACT expanded its market with the acquisition of the Lethbridge-based Datatron Group of companies. Well-known as a computer processing centre and software development company in southern Alberta, Datatron is also one of the largest processors of Alberta Health Care insurance claims for Alberta's medical practitioners and suppliers of clinic administration systems.

Datatron Computer Solutions is a dealer for both IBM and Apple microcomputers,

ACT Computer Services Ltd.
Peter J. Magrath, President
11735 - 170 Street
Edmonton, Alberta, T5M 3W7
(403) 451-5555

focusing primarily on the education and government sectors. The company was recently appointed as Apple's designated government dealer for all levels of government in the Province of Alberta.

Vencap commitment $947,500

D & S Petroleum Consulting Group Ltd.

Although recent years have marked a substantial increase in the number of Alberta technology companies, D & S has been providing its products and services for almost 25 years. A fully integrated company, D & S offers professional consulting services as well as software products to worldwide users in the petroleum industry. Its consulting services are diversified and include property and corporate evaluations, reservoir and mathematical simulation studies, heavy oil, geology, petrophysics, production and revenue accounting and gas chart integration. All of these services are supported by state-of-the-art software capable of running on mainframe, workstation and personal computers. D & S markets this software on a lease/purchase basis or on a royalty basis on its time-share computing facility.

D & S continues to diversify its product base as well and, in early 1988, announced the development of its log analysis program, LOGMATE ASSISTANT, to incorporate practical artificial intelligence technology. Artificial intelligence is the means for imitating the human brain and enables a computer to solve a wider range of problems. The company has been overwhelmed by industry response to this proprietary technology and expects to market it for evaluating the geological formations of exploration properties.

Vencap commitment $2,000,000

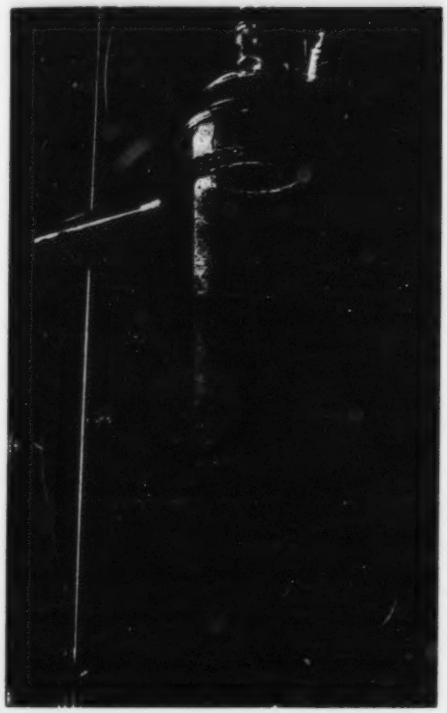
GEOTECHnical resources ltd.

GEOTECHnical resources ltd. provides a range of sophisticated laboratory and testing services for the exploration and development sectors of the petroleum industry in western Canada, the Arctic and abroad. The funds provided by Vencap's investment were used for further applied research and for expanding the company's range of services and specialty products in engineering and geoscience.

GEOTECH has diversified into new areas related to its rock core, gas and fluid analysis

D & S Petroleum Consulting Group Ltd.
P.E. (Ted) denHartog, Chairman
700, 125 - 9 Avenue SE
Calgary, Alberta T2G 0P6
(403) 268-6500

GEOTECHnical resources ltd.
Arne Matiisen, President
4500 - 5 Street NE
Calgary, Alberta T2E 7C3
(403) 230-4128



GEOTECHnical - providing the technology and skill to test and analyze rock core, gas and fluid samples for the petroleum industry.

services, including specialized geological services and the evaluation of enhanced oil recovery techniques. In the north, the company has developed expertise in using ice for the construction of temporary off-shore drilling platforms. In early 1987, GEOTECH introduced the Canadian Discovery Digest, a monthly data service publication providing the petroleum industry with a comprehensive source of exploration information on a timely basis. The Canadian Discovery Digest has been well-received by the petroleum industry and a strong subscription base has been achieved.

Vencap commitment $1,100,000

SN Hanson Group Enterprises Ltd.

Hanson's reputation for technical expertise in metallurgical engineering has made it one of the leading Canadian companies in this area. In early 1988, it received the Dr. E.E. Ballantyne Award for Excellence in Environmental Research from Alberta Environment and the Alberta Environmental Research Trust. The industries served by Hanson and its operating divisions include energy, pulp and paper, manufacturing, construction, transportation and nuclear power. With facilities in both Calgary and Edmonton, Hanson undertakes materials engineering, failure analysis, mechanical testing, welding and corrosion engineering, non-destructive testing, quality assurance services, and custom heat treatment services. Renewed pipeline construction activity in western Canada will see the full utilization of these capabilities in the next few years.

Hanson's regional and subsidiary offices in Vancouver and throughout British Columbia primarily serve customers in the pulp and paper industry. Additionally, Hanson is represented on the east coast with facilities in Nova Scotia and New Brunswick. The company's recent expansion into central Canada to service the manufacturing sector has resulted in offices being established in Sarnia and Mississauga.

Vencap commitment $1,000,000

IDACOM Electronics Ltd.

IDACOM Electronics Ltd. designs, manufactures and markets sophisticated test equipment for the data communications market. IDACOM equipment, which has been sold in 22

SN Hanson Group Enterprises Ltd.
Sidney H. Hanson, President
7450 - 18 Street
Edmonton, Alberta T6P 1N8
(403) 440-2916

IDACOM Electronics Ltd.
Walter J. Stein, President
4211 - 95 Street
Edmonton, Alberta T6E 5R6
(403) 462-4545

countries, is used in the development, quality assurance, certification and performance testing of communications software and equipment. Customers include telephone companies and other signal carriers, manufacturers of communications equipment and large users of communications services.

Vencap initially purchased $600,000 of IDACOM common shares in March, 1985, to fund research and product development and to expand IDACOM's manufacturing abilities as it introduced a new generation of test equipment. Vencap increased its investment in IDACOM with a $1,075,000 participation in a further round of financing in September, 1987, to enable IDACOM to acquire larger premises and additional equipment to support its continued rapid growth.

IDACOM continued to strengthen its sales and marketing capabilities during the past year and now maintains eight direct sales and customer support offices in Canada and the United States. Marketing efforts outside of North America are conducted in co-operation with Siemens AG, a large West German firm with worldwide representation.

Vencap commitment $1,675,000

Synerlogic Inc.

Synerlogic was one of Vencap's first investments and an example of the corporation's interest in attracting existing businesses to Alberta. One of the largest consulting firms in Canada in computer information systems, Synerlogic was founded in Ottawa in 1975. Vencap's equity participation in the company saw its relocation to Calgary in 1984.

Synerlogic's nine regional offices, located coast to coast, serve government and private sector customers in Halifax, Fredericton, Montreal, Ottawa, Toronto, Mississauga, Edmonton, Calgary and Vancouver. Synerlogic's services are relied on by customers who are upgrading their existing computer systems or considering the purchase of new technology. By undertaking in-depth analysis of customers' present and future requirements, Synerlogic determines the most effective and cost-efficient systems and software applications to be employed for their operations.

Vencap commitment $3,218,080

Westronic Inc.

Westronic Inc. of Calgary is a leading designer, manufacturer and marketer of microprocessor-based remote monitoring and control products. These products are used by electric utilities, oil and gas companies and telecommunication carriers. Complementary distributed power products include a broad range of prime standby and alternate energy equipment. The company has more than 20 years' experience in these and related fields.

Westronic's customers range from large multinational suppliers of monitoring and control systems to sophisticated end-users engaged in the design or expansion of their own systems. These monitoring and control systems ensure operation and reliability of revenue-producing facilities such as power transmission lines, product pipelines and telecommunication networks. The markets for Westronic's intelligent Remote Terminal Units are large, worldwide and growing. The past couple of years have seen Westronic's order backlog grow to all-time highs, with each year exceeding the record of the previous year by substantial amounts. As markets expand and new competitors emerge, Westronic is optimistic that it will stay in the forefront of remote monitoring and control technologies worldwide.

International acceptance of Westronic products brought the company the Alberta Export Achievement Award for four consecutive years. Successful installations dot the map in North America, Australia, the United Kingdom, the Middle East, Europe and the Pacific Rim.

The financing secured by Westronic from Vencap and the Federal Business Development Bank (Investment Banking Division) facilitated the development of the company's leading-edge product line and the increased market presence.

Vencap commitment $2,025,158

Synerlogic Inc.
David E. Seibel, Vice President
and Chief Operating Officer
1300, 635 - 8 Avenue SW
Calgary, Alberta T2P 3M3
(403) 237-6500

Westronic Inc.
Lyle A. Wharton, President and
Chief Executive Officer
4525 Manilla Road SE
Calgary, Alberta T2G 4B6
(403) 243-3335

Winter Game
lberta Canada
988

During fiscal 1988, the amount of investment funds directed to companies in the industrial/manufacturing sector reached $25.9 million, 29 per cent of Vencap's total portfolio.

Alberta produces only five per cent of the consumer products enjoyed by its population and equipment utilized by its businesses. Vencap is committed to expanding this capacity through the creation and building of industrial and manufacturing companies.

ALPECO, which we classify as an industrial-sector company, is also a start-up venture and has been described in the section: "Start-Up and Early-Stage Ventures."

AMPTECH Corporation

Applied Metal and Plastic Technology Corporation (AMPTECH) produces tooling and high-precision injected molded parts for telecommunications, defence and electronic industries in North America. It also produces die-cast aluminum and zinc components.

AMPTECH underwent a year of corporate and financial reorganization during 1987. A complete analysis of AMPTECH's strengths, weaknesses, market prospects and financial performance was undertaken by Vencap to assist in determining the future role and outlook for this Calgary-based manufacturer. New management was found and an additional $2.6 million of new capital was raised, of which Vencap contributed $800,000.

The new equity funds have been applied, in part, to acquiring additional capital equipment, specifically CAD/CAM (computer-aided design/computer-aided machining) tool and die production equipment in 1988. Plans call for upgrading AMPTECH's machine area to ensure it is complementary to the CAD/CAM, and upgrading the plastic-injection molding equipment to increase capacity.

Vencap commitment $1,800,112

Applied Metal and Plastic Technology Corporation (AMPTECH)
Ehor W. Babij, President
1351 Hastings Crescent SE
Calgary, Alberta T2G 4C8
(403) 243-1263

Cano Structures Inc.

Cano Structures Inc. manufactures the highly energy-efficient NASCOR system, which can be used in any structure which normally requires conventional wood frame construction. The system, which consists of walls, roofs and foundations, enjoys wide market acceptance in Canada and the U.S. The NASCOR system is used in thousands of housing units each year.

Owners of buildings with the NASCOR system experience enhanced construction time,

Cano Structures Inc.
Richard U. Dettbarn, President
7803G - 35 Street SE
Calgary, Alberta T2C 1V3
(403) 279-1966

reduced air infiltration, reduced noise levels and substantially lower energy costs. The system consists of expanded polystyrene combined with wood. Cano's product has received Canadian as well as American regulatory approvals and is used in all types of residential construction as well as industrial, commercial and agricultural buildings.

The NASCOR system is a cost-effective construction method which provides the building owner with a rapid payback and a much enhanced level of building comfort.

Vencap commitment $1,500,000

Corod Industries, Inc.

Corod provides an integrated range of specialized equipment and services to the energy sector in western Canada, the United States and abroad. Corod manufactures and provides field support of a proprietary continuous sucker rod system and downhole progressive cavity pumps while also providing oil and gas well workover services.

Corod Industries was formed in February, 1987, with the amalgamation of Corod Manufacturing with the Widney Well Servicing subsidiary of Canadian General Electric. Vencap had invested $1,190,000 in Corod Manufacturing in March, 1985. Vencap realized a gain on the sale of the company and has retained a minor ownership position in the new company.

Despite depressed industry conditions, Corod has made excellent progress during the last year toward its goal of becoming a major energy service company. The sales, field service and manufacturing operations of the predecessor companies have been effectively combined to achieve increased operating efficiencies and to provide customers with an integrated service. Corod is involved in several of the in situ project expansion initiatives in Alberta and continues to have success in export markets. Corod has added fiberglass sucker rod manufacturing capabilities to better serve the needs of its customers.

Head office and manufacturing facilities remain in the Edmonton area. A network of seven marketing and field service offices supports activities in British Columbia, Alberta and Saskatchewan.

Vencap commitment $625,429

Corod Industries, Inc.
Peter C. Flynn, President
601-18 Avenue
Nisku, Alberta T0C 2G0
(403) 955 - 2591

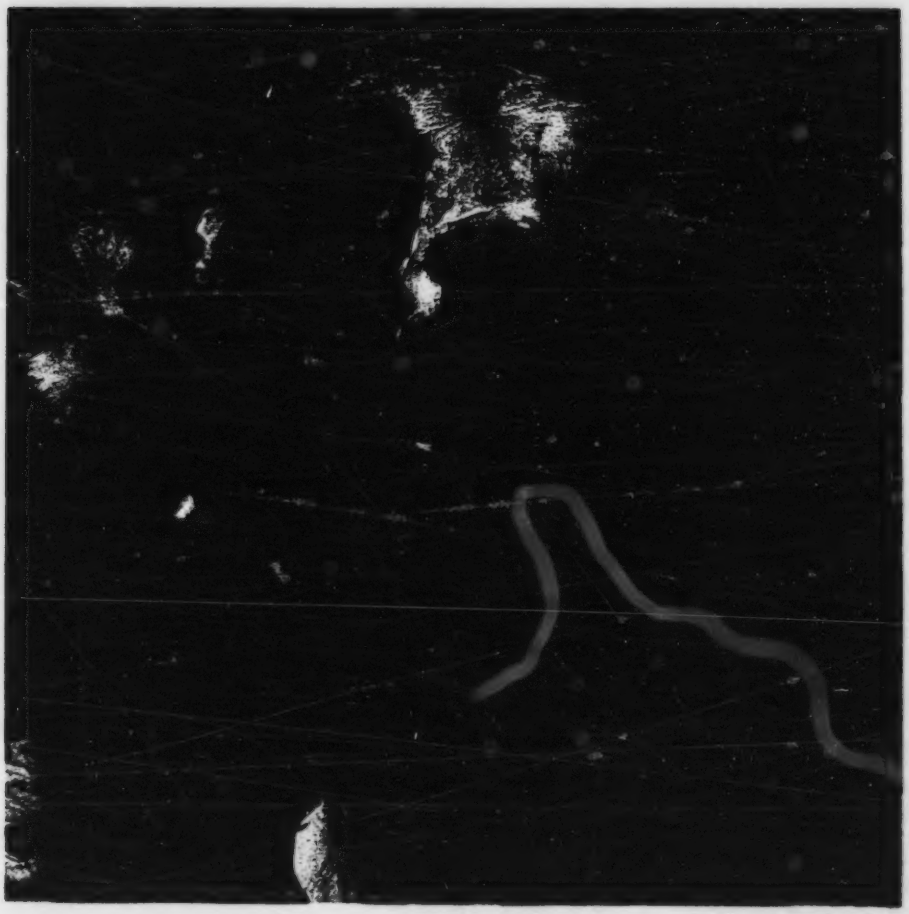
Lakeside Farm Industries Ltd.

Lakeside Farm Industries Ltd., headquartered in Brooks, Alberta, is an integrated agribusiness with operations in several other southern Alberta towns. The company's activities encompass cattle feeding, meat packing, feed milling, fertilizer blending and sales, agricultural consulting and research, and broiler and hog production.

During the past year, Lakeside expanded its feed lot so that it now has the capacity to feed in excess of 30,000 cattle. Also during the year, the company completed a major expansion of its packing plant. Lakeside, which is the largest employer in Brooks, will continue to grow and develop opportunities in Alberta agriculture.

Vencap commitment $5,000,000

Lakeside - an agribusiness with innovative approaches to the cattle feeding and meat packing industries.



Lakeside Farm Industries Ltd.
Garnet E. Altwasser, President
Box 800
Brooks, Alberta T0J 0J0
(403) 362-3326

Mountain Minerals Co. Ltd.

Mountain Minerals is a Lethbridge-based company founded in 1945 to mine and process silica and barite for industrial applications. Mountain holds the mineral interests for deposits in western Canada, Montana and Utah and has a customer base representing a variety of industries. Silica and barite are used in chemicals, automotive parts, ceramics, glass and abrasives, as fillers in plastics and paints, and as a component of heavyweight drilling mud for the petroleum industry.

During the past year, Mountain secured additional barite deposits to ensure a continuing supply of high-quality barite. Mountain made significant progress in penetrating barite customer markets in eastern Canada and the U.S. Vencap and its co-investor are currently working very closely with the company to determine the future strategies necessary to build a significant industrial minerals marketing company.

Vencap commitment $2,650,000

Clarepine Industries Inc.

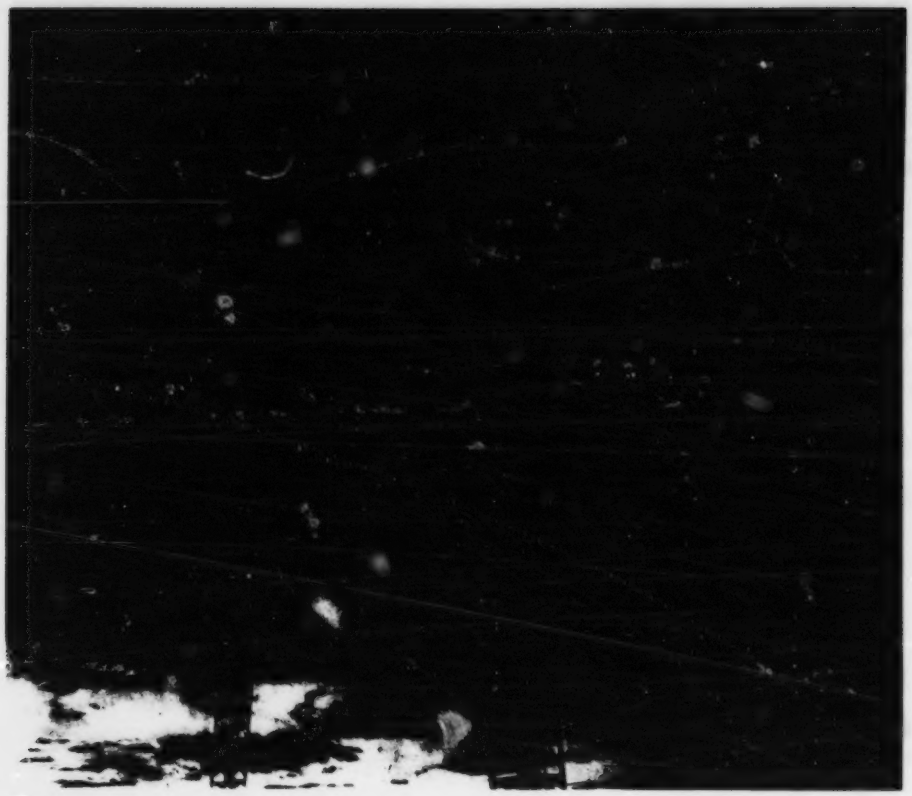
Clarepine Industries Inc., formerly Strathcona Resource Industries Ltd., is an Alberta-based public company with diversified manufacturing operations. The company, which is listed on The Toronto Stock Exchange, has four operating divisions. Sil Silica, near Edmonton, is western Canada's largest producer of industrial silica used for sandblasting, the manufacture of fiberglass insulation and oilfield cement. Strathcona Steel is an engineering-intensive steel fabricator, specializing in large pressure vessels and the design and manufacture of steam generators and water treatment equipment for the heavy oil industry. Dyer Equipment, located in Calgary, designs and manufactures a complete range of oilfield servicing equipment for the completion and stimulation of oil and gas wells. It has sold more than $30 million of equipment to export markets such as Pakistan, the U.S.A., Turkey, China, the United Kingdom, Venezuela, India and Mexico. Renn-Vertec, located in Vermilion, Alberta, is a manufacturer and distributor of short-line agricultural equipment, including an innovative line of grain dryers.

Vencap commitment $5,000,000

Mountain Minerals Co. Ltd.
Ronald J. Singh, President
714 - 5 Avenue South
Lethbridge, Alberta T1J 0V1
(403) 329-0443

Clarepine Industries Inc.
Robert A. McAlpine, President
9303 - 51 Avenue
Edmonton, Alberta T6E 4W8
(403) 438-4762

Stuart Olson - building a major Canadian construction company from Alberta roots.



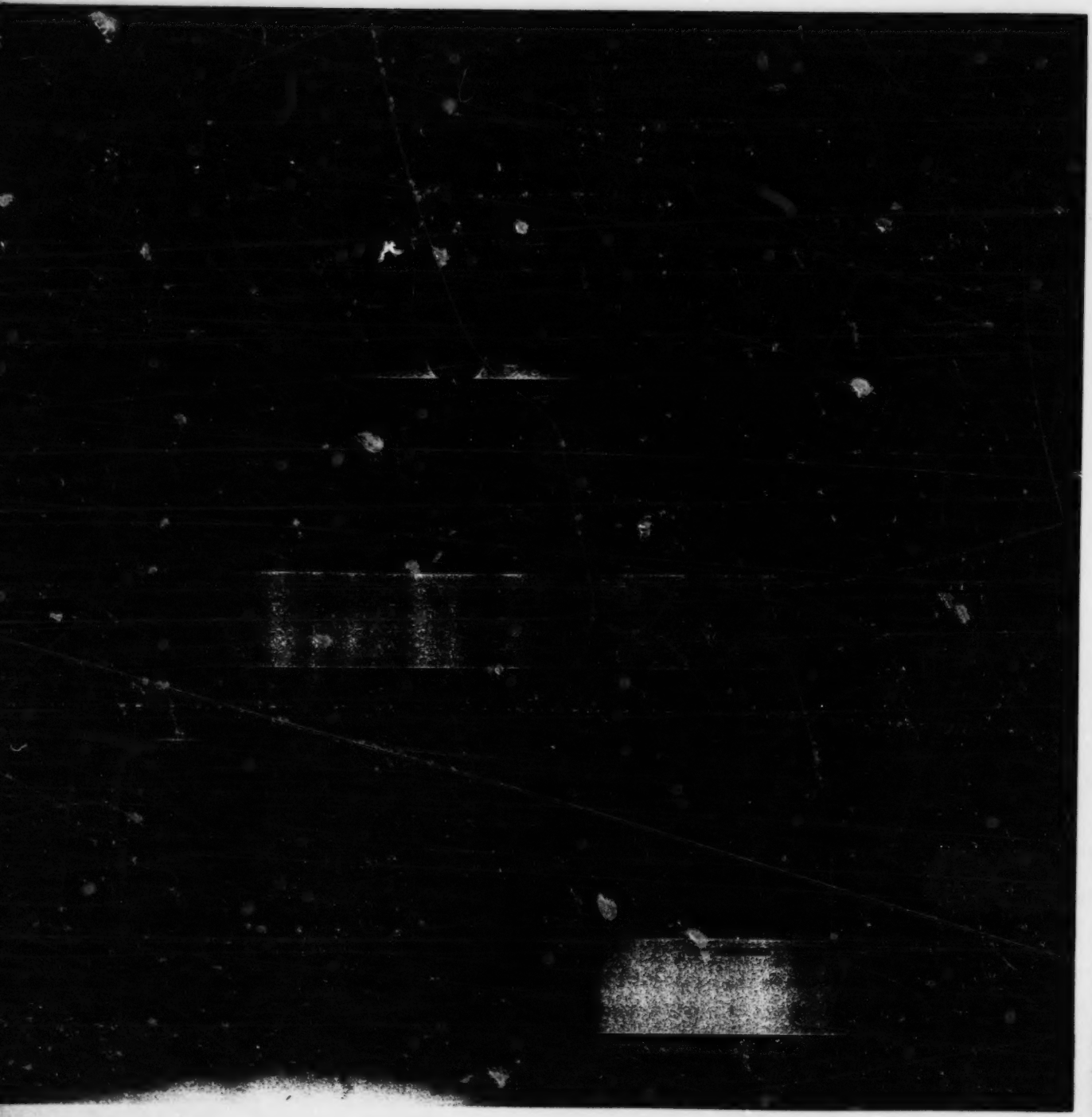
Stuart Olson Construction Ltd.

Stuart Olson Construction Ltd., which traces its roots as an Alberta corporation from 1939, is one of Alberta's largest construction companies. The company is growing rapidly and is now operational in British Columbia, Alberta and Saskatchewan. Stuart Olson provides a wide range of construction services, including design-build, construction management and general contracting in the civil and commercial, industrial and institutional building fields. Its subsidiaries and affiliate companies provide specialized construction services, including office and retail interiors and construction equipment sales and rentals.

The company will continue its strategy of providing an increasingly wide range of services and the highest possible quality. Stuart Olson Construction Ltd. looks forward to participating in the economic recovery of western Canada during the next few years.

Vencap commitment $5,000,000

Stuart Olson Construction Ltd.
Allan S. Olson, President
12836 - 146 Street
Edmonton, Alberta T5L 2H7
(403) 452-4260



The service-related enterprises in which Vencap has invested are broad-ranging, from technical expertise to labor-intensive activities. By March 31, 1988, Vencap had directed $22.6 million, or 26 per cent of its venture investment portfolio, to companies in service-related industries.

The Churchill Corporation

The Churchill Corporation is an investment and holding company with significant interests in several Alberta-based companies. Churchill's principal business activities include corporate investments, financial and advisory services, and other diversified holdings.

The amalgamation of Churchill with A.I.L.—Alberta Investments Ltd.—in June, 1987, completed a profitable corporate restructuring initiated by Churchill. The November, 1987, amalgamation of Churchill and Churchill SBEC Ltd. was an acquisition of minority equity positions in nine emerging companies and resulted in a more effective management structure. Upon completion of this amalgamation, Churchill's common shares became listed on The Alberta Stock Exchange.

Churchill's management has demonstrated its skill in corporate restructurings, investing in high potential companies and other financial advisory services. Since 1986, the company has placed more than $9 million in corporate investments and loans to affiliates. With assets of $42 million and shareholders' equity of $30 million, Churchill has the financial strength and management talent for continuing progress in the future.

Vencap commitment $9,000,000

PTI Group Inc.

PTI Group Inc. incorporates four divisions in its business of servicing the resource and construction industries with food and shelter at remote locations. PTI Camp Services has the capability to rent the accommodation, haul the equipment to site and do a complete installation. Hofam Catering then performs the complete camp management and food service function.

Crown Camp Services Ltd. has been structured to supply accommodation and camp management services for the major construction projects currently being announced in

The Churchill Corporation
Gary G. Campbell, Chairman and
Chief Executive Officer
2300, 10060 Jasper Avenue
Edmonton, Alberta T5J 3R8
(403) 424-8230

PTI Group Inc.
John E. Hokanson, President
3050 Parsons Road
Edmonton, Alberta T6N 1B1
(403) 463-8872

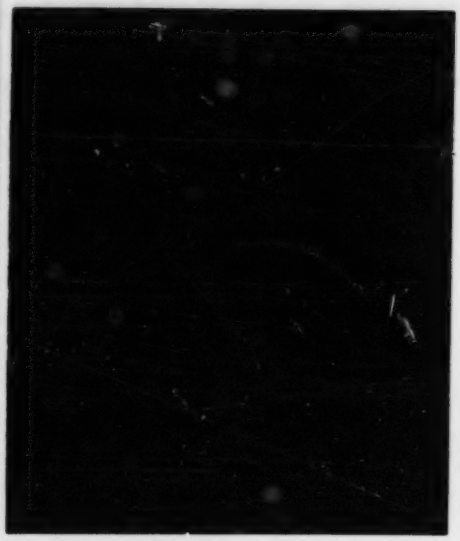
western Canada.

Heritage Meats, a federally inspected meat processing operation, continues to increase market share in the food service industry, supplying its products to hotels, restaurants, private clubs and institutions in western Canada.

As a result of the continuing recovery of the western Canadian resource economy, PTI anticipates significant growth in sales and earnings.

Vencap commitment $2,500,000

Peters & Co. Limited



Peters & Co. - serving Alberta as the only integrated investment dealer headquartered in this province and focused on its opportunities.

Peters & Co. Limited is a unique entity in the world of investing as it is the only integrated investment dealer headquartered in Alberta. Almost all of its corporate clients are companies located in western Canada while most of its investing clients are elsewhere. They are pension funds, banks, investment counsellors, mutual funds, and other financial institutions in central Canada, the United States, the United Kingdom and Continental Europe.

The firm offers a full range of investment services, including: securities brokerage for institutional and individual clients; investment research; underwriting and distribution of securities through public offerings and private placements; merger and acquisition advisory services; financial advisory services to corporations, and market making and principal trading in certain corporate securities. It focuses on presenting investment opportunities from western Canada, particularly in oil and gas investments, to investors in other parts of the country and the world.

Notwithstanding the firm's comprehensive range of services, there are only 30 employees. Of the total, 11 are institutional and retail sales representatives who deal directly with investing clients; two are research analysts; four are securities traders; four work in corporate finance activities, and the remaining nine are support staff employed in operations and administration.

The company has been in business since 1971 and is a member of The Toronto Stock Exchange, The Alberta Stock Exchange, The Vancouver Stock Exchange, and the Investment Dealers Association of Canada.

Vencap commitment $1,110,682

Peters & Co. Limited
Robert G. Peters, President
200 Sun Life Plaza, North Tower
140 - 4 Avenue SW
Calgary, Alberta T2P 3X1
(403) 261-4850

Relax Development Corporation Ltd.

The Relax Group of companies is Canada's first and one of the largest economy hotel chains with properties throughout Canada. These properties are all developed, constructed, operated and managed by the Relax Group.

The Relax Group was created by the Royer family, who have been hotel operators for three generations. The Relax concept grew out of the need for a hotel which would provide comfortable accommodation at affordable prices—a concept which has become a Relax tradition.

Today, the Relax Group has two types of properties: Relax Inns are located primarily in suburban areas using the original concept of providing stylish rooms in a comfortable atmosphere with economical prices. Relax Plazas represent a new product geared specifically to the business traveller and are located in downtown or business centres. The Plaza concept offers the convenience of a luxury hotel and responds to consumer expectations of such a property at reasonable cost.

Vencap's investment in the Relax Group is assisting with hotel development and building. New hotel properties are presently under development in several locations.

Vencap commitment $7,000,000

Stanley Engineering Group Inc.

Stanley Engineering Group Inc. is an Alberta-based consulting organization managing technology through 17 offices in Canada, the United States and overseas. Since its formation in 1954 by Dr. Stanley, the Stanley Group has provided project management, feasibility management, planning, design and construction services to all levels of government and private industry. Through the diversification of its abilities and the competence of its staff, the firm has reached the point where it now enjoys a national and international reputation.

The organization provides the following services:

- municipal engineering
- transportation engineering
- management consulting
- hazardous and solid waste management

Relax Development Corporation Ltd.
Terrance E. Royer, President
5th Floor, 5940 Macleod Trail South
Calgary, Alberta T2H 2G4
(403) 255-9667

Stanley Engineering Group Inc.
Dr. Donald R. Stanley, Chairman
10160 - 112 Street
Edmonton, Alberta T5K 2L6
(403) 423-4777

Stanley Engineering - serving international markets with engineering expertise and management.

- industrial engineering
- structural engineering
- environmental services
- northern engineering
- socio-economic evaluations
- land development and urban design
- urban and regional planning
- mechanical and electrical engineering
- water resources engineering
- legal surveys

Vencap commitment $2,029,218

Western Cartage & Storage (1962) Ltd.

Western Cartage is similar to many of Vencap's investments in the service industry in that it is a well-established Alberta business that has built a long-standing reputation for service.

Founded more than 80 years ago in Edmonton, Western has grown into one of western Canada's leading moving companies. Plans call for it to be a dominant player in the Canada-wide moving and storage business.

With operating authorities in each of the 10 provinces and two territories, Western is poised to expand its operations and presence. Through its operating companies, Western Moving & Storage and Hill Security Van Lines, the company serves all major centres in western Canada, including Yellowknife, Edmonton, Calgary, Regina, Winnipeg, Vancouver, Victoria, Nanaimo and Port Alberni. The Toronto and Ottawa markets are served by Western's subsidiary, Security Van Lines. As an affiliate of Allied Van Lines, the world's largest mover, Western Cartage & Storage can accommodate the movement of goods internationally.

Vencap commitment $1,000,000

Western Cartage & Storage (1962) Ltd.
Richard J. LeLacheur, President and Chief Executive Officer
18151 - 107 Avenue
Edmonton, Alberta T5J 2L3
(403) 483-1322

Auditors' Report

April 20, 1988

To the Shareholders of Vencap Equities Alberta Ltd.:

We have examined the balance sheet of Vencap Equities Alberta Ltd. as at March 31, 1988, and the statements of income, changes in shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse
Chartered Accountants
Edmonton, Alberta

Management's Reporting Responsibility

The accompanying financial statements of Vencap Equities Alberta Ltd. and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements

Management of the corporation, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains an extensive system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the corporation's annual financial statements and recommends their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Price Waterhouse, Chartered Accountants, and their report is presented herein.

Derek H. Mather
President and Chief Executive Officer

R.A.Slator
Executive Vice President and Chief Financial Officer

Balance Sheet

	March 31, 1988	March 31, 1987
ASSETS		
Current assets:		
Cash	$ 427,113	$ 734,213
Interest and dividends receivable	4,868,271	8,262,027
Income taxes recoverable	425,680	–
Investments in securities, at cost which approximates market value	76,598,179	91,432,943
Prepaid expenses	128,154	81,936
	82,447,397	100,511,119
Investments in securities maturing after one year (market value - $127,952,675; 1987 - $125,071,019)	125,640,660	118,976,926
Venture investments (Note 2)	69,930,348	50,811,283
Employee share purchase loans (Note 5)	545,088	538,565
Fixed assets, at cost less accumulated depreciation	471,781	336,137
	$279,035,274	$271,174,030
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 435,056	$ 361,866
Accrued interest payable	8,329,885	9,353,712
Income taxes payable	–	71,838
	8,764,941	9,787,416
Long-term debt:		
Convertible debentures (Note 3)	40,000,000	40,000,000
Province of Alberta loan (Note 4)	199,996,000	199,997,000
	239,996,000	239,997,000
Shareholders' equity	30,274,333	21,389,614
	$279,035,274	$271,174,030

Approved On Behalf Of The Board:

Director

Director

Statement of Income

	Year ended March 31	
	1988	1987
Interest and dividend income	$21,885,831	$23,766,461
Realized gain on disposition of venture investment	–	344,347
Gain on sale of securities	776,050	–
	22,661,881	24,110,808
Expenses:		
Interest on Province of Alberta loan	7,159,450	8,183,301
Interest on debentures	4,800,000	4,800,000
General and administrative expenses	3,542,981	2,944,206
	15,502,431	15,927,507
Income before income taxes	7,159,450	8,183,301
Recovery of income taxes	775,546	131,909
Net income	$ 7,934,996	$ 8,315,210
Earnings per common share or equivalent (Note 7):		
Basic earnings per share	$ 1.80	$ 1.86
Fully diluted earnings per share	$ 0.44	$ 0.45

Statement of Changes in Shareholders' Equity

	Class B preferred shares	Common shares	Retained earnings	Allowance for net unrealized losses on venture investments	Total
Balance, March 31, 1986	$442,615	$4,027,105	$16,486,669	$ (3,100,000)	$17,856,389
Net income	–	–	8,315,210	–	8,315,210
Net increase in allowance for unrealized losses on venture investments	–	–	–	(4,888,000)	(4,888,000)
Issuance of shares	144,050	–	–	–	144,050
Repurchase of shares	(38,035)	–	–	–	(38,035)
Conversion of shares	(13,170)	13,170	–	–	–
Balance, March 31, 1987	535,460	4,040,275	24,801,879	(7,988,000)	21,389,614
Net income	–	–	7,934,996	–	7,934,996
Net decrease in allowance for unrealized losses on venture investments	–	–	–	988,000	988,000
Issuance of shares	22,945	–	–	–	22,945
Repurchase of shares	(16,422)	(44,800)	–	–	(61,222)
Conversion of shares	(24,633)	24,633	–	–	–
Balance, March 31, 1988	$517,350	$4,020,108	$32,736,875	$ (7,000,000)	$30,274,333

Statement of Changes in Financial Position

	Year ended March 31	
	1988	1987
Cash provided from operations:		
Net income	$ 7,934,996	$ 8,315,210
Depreciation	76,648	70,266
Realized gain on disposition of venture investment	–	(344,347)
Gain on sale of securities	(776,050)	–
	7,235,594	8,041,129
Decrease (increase) in income taxes recoverable	(497,518)	298,383
Decrease (increase) in interest and dividends receivable	3,393,756	(168,827)
Increase (decrease) in accrued interest payable	(1,023,827)	487,334
Other	26,972	298,190
	9,134,977	8,956,209
Cash provided from (used for) financing:		
Repurchase of common shares	(44,800)	–
Issue of Class B preferred shares	6,523	106,015
Employee share purchase loans	(6,523)	(92,845)
	(44,800)	13,170
Cash used for investments:		
Venture investments, net of return of capital	18,131,065	18,070,268
Proceeds from disposition of venture investments	–	(908,918)
Proceeds from sale of securities	(8,947,080)	(6,382,111)
Additions to fixed assets	212,292	116,295
Repayment of Province of Alberta loan	1,000	1,000
	9,397,277	10,896,534
Decrease in cash	(307,100)	(1,927,155)
Cash, beginning of year	734,213	2,661,368
Cash, end of year	$ 427,113	$ 734,213

Notes To Financial Statements

March 31, 1988

1. Summary of significant accounting policies:

(a) Valuation of securities -
Investments in securities are recorded at the lower of cost or market value.

(b) Venture investments -
Venture investments having quoted market values and which are actively traded are recorded at values based on the quoted market prices at the balance sheet date.

Venture investments not having quoted market values are recorded at directors' estimates of fair value. In preparing the estimates, the directors have adopted the following definition: fair value is the expected realization if all of the venture investments were disposed of in an orderly distribution over a reasonable period of time.

The company uses a valuation procedure which includes the quarterly preparation of a written summary of the status of each venture investment and other pertinent information. The audit committee, consisting solely of outside directors, meets with management to discuss each investment in detail. The committee subsequently presents its recommendations to the board of directors, which determines the final valuations. It should be understood, however, that the valuation process is based on inherent uncertainties and the resulting values might differ from values that would have been used had a ready market existed for the investments.

Realized gains or losses on disposition of venture investments are recorded in the statement of income. Unrealized gains or losses in the value of investments, net of anticipated interest on the Province of Alberta loan and income taxes, are reflected as a separate element in shareholders' equity.

(c) Depreciation -
Fixed assets are depreciated over their estimated useful lives as follows:

Furniture, fixtures and equipment - declining balance basis at 20% per annum
Leasehold improvements - straight-line basis over the term of the lease.

2. Venture investments:

Venture investments are held in the following form:	1988	1987
Preferred shares	$49,023,805	$39,300,000
Common shares	24,130,228	15,309,494
Loans	3,776,315	4,189,789
	76,930,348	58,799,283
Allowance for net unrealized losses	(7,000,000)	(7,988,000)
	$69,930,348	$50,811,283

During the year, venture investments increased by the following:

	1988	1987
Investments purchased	$20,644,840	$18,234,478
Dispositions, at cost	–	(564,571)
Return of capital	(2,513,775)	(164,210)
Decrease (increase) in allowance for net unrealized losses	988,000	(4,888,000)
	$19,119,065	$12,617,697

3. Convertible debentures:

The convertible debentures bear interest at 12% per annum payable semi-annually on the second day of January and July in each year. The debentures are convertible at the option of the holders into common shares at any time to July 2, 1991 at a conversion price of $2.50 per common share, and at any time thereafter to July 2, 1998 at a conversion price of $4.00 per common share.

As a result of conversion of the convertible debentures, the company may issue up to 16,000,000 additional common shares.

4. Province of Alberta loan:

The Province of Alberta loan is to be repaid in instalments of $1,000 each year through to 2002 and $15,000,000 in each of the years 2003 to 2012 inclusive, with the balance due in 2013. Interest is calculated as a percentage of the company's net income before deducting income taxes, interest on the Province of Alberta loan and interest on any debt subordinated to the Province of Alberta loan but after deducting operating expenses and interest on the convertible debentures.

The loan is secured by a debenture which provides for a fixed charge on securities owned by the company having an aggregate book value of $175,000,000. The debenture also provides for a floating charge on all the company's assets and an assignment of receivables.

The company may issue up to 4,000,000 Special Shares at a price of $1.00 per share upon exercise of an option in favour of the Province of Alberta. The Special Shares, if issued, will have 20% of the total number of votes attaching to all shares of the company.

5. Share capital:

	1988	1987
Authorized –		
Unlimited number of Class A preferred shares		
Unlimited number of Class B preferred shares		
Unlimited number of Special Shares		
Unlimited number of common shares		
Issued -		
40,500 Class B preferred shares (1987 - 42,500)	$ 517,350	$ 535,460
4,010,200 common shares (1987 - 4,034,000)	4,020,108	4,040,275
	$4,537,458	$4,575,735

The company has designated 50,000 Class B preferred shares - Series 1 as non-voting Key Employee Shares. Each Key Employee Share can be converted into 10 common shares, is entitled to receive dividends equal to 10 times the amount of cash dividends declared on each common share and, in the event of dissolution of the company, would be entitled to priority in respect of unpaid dividends declared.

The company has provided interest-free loans of $545,088 to employees in connection with their purchase of Class B preferred shares. The loans are repayable at the earliest of the date of demand by Vencap, the date the shares are converted into common shares, or 10 years from the date of issue.

During the year 1,500 Class B preferred shares - Series 1 were issued for cash totalling $22,945, 1,400 were returned to treasury, and 2,100 were converted at an average price of $11.73 per share for 21,000 common shares. The company purchased 44,800 of its common shares in the open market at a cost of $71,905.

6. Commitments:

The company is committed under operating leases for rental of office space. The commitment for annual lease payments for each of the next five fiscal years is as follows:

1989	$126,750
1990	139,252
1991	147,929
1992	163,550
1993	186,984

7. Earnings per common share or equivalent:

The calculation of basic earnings per share is based on the weighted average number of common and Class B preferred shares outstanding during the year. Fully diluted earnings per share is calculated as though all outstanding share options and convertible debentures had been exercised or converted on the first day of the year.

8. Income taxes:

The provision for income taxes is lower than the amount computed by applying the combined federal and provincial income tax rate to income before income taxes. The differences are as follows:

	1988	1987
Income before income taxes	$ 7,159,450	$ 8,183,301
Combined federal and provincial income tax rate	51.56%	48.8%
Computed provision for income taxes	$ 3,691,412	$ 3,993,451
Increase (decrease) in income taxes resulting from:		
Non-taxable dividend income	(4,855,298)	(4,189,875)
Other	388,340	64,515
Recovery of income taxes	$ (775,546)	$ (131,909)

Corporate Directory

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1980, 10180 - 101 Street
Edmonton, Alberta
T5J 3S4
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2000, 800 - 5 Avenue SW
Calgary, Alberta
T2P 3T6
Telephone: (403) 237-8101
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Board of Directors

James G. Anderson
Retired Vice President, Canadian Imperial Bank of Commerce

John E. Barry
President, JEB Investments Ltd.

Donald A. Carlson
Chairman, Vencap Equities Alberta Ltd.

F. William Fitzpatrick
Retired Chairman, Bralorne Resources Ltd.

Peter L.P. Macdonnell
Partner, Milner & Steer Barristers & Solicitors

Derek H. Mather
President and Chief Executive Officer, Vencap Equities Alberta Ltd.

Jack H. Nodwell
President, Canadian Foremost Ltd.

Daryl K. Seaman
Chairman, Bow Valley Industries Ltd.

Fred Sparrow
Retired Chairman and Chief Executive Officer, Bank of Alberta

Donald J. Taylor
President, Engineered Air

G. Norman Wildgoose
Retired Managing Partner, Deloitte, Haskins & Sells

John D. Wood
President and Chief Operating Officer, Canadian Utilities Limited

Committees

Executive:
Donald A. Carlson, Chairman
Peter L.P. Macdonnell
Derek H. Mather
Donald J. Taylor
John D. Wood

Audit:
G. Norman Wildgoose, Chairman
James G. Anderson
John E. Barry

Human Resources & Compensation:
John D. Wood, Chairman
Daryl K. Seaman
Fred Sparrow
G. Norman Wildgoose

Officers:

Donald A. Carlson
Chairman of the Board

Derek H. Mather
President and Chief Executive Officer

R.A.(Sandy) Slator
Executive Vice President, Chief Financial Officer and Secretary

Shareholders' Information

Vencap Equities Alberta Ltd. is incorporated under the laws of the Province of Alberta. Common shares of the corporation are listed on The Alberta Stock Exchange. Fiscal year end is March 31.

Change of address and other shareholder information should be directed to Vencap's Registrar and Transfer Agent:

National Trust Company
Scotia Place
10072 Jasper Avenue
Edmonton, Alberta
T5J 1V8
Telephone: (403) 421-8666

Auditors
Price Waterhouse

Annual General Meeting
11:00 a.m., Wednesday, June 29, 1988
The Westin Hotel
10135 - 100 Street
Edmonton, Alberta.